



Does Entrepreneurial Process of Small Businesses Vary With the Contexts?

W.A. Upananda^a, U.E.S. Kumara^b, and S.A. Khan^c

^aFaculty of Business Studies and Finance, Wayamba University of Sri Lanka, Sri Lanka. uwitta@yahoo.com

^bFaculty of Business Studies and Finance, Wayamba University of Sri Lanka, Sri Lanka. emilkumara@yahoo.com

^cGaeddu College of Business Studies, Royal University of Bhutan, Bhutan. khan.shadahmad@gmail.com

Abstract

Guided by insights from case study research approach to examine real world phenomenon, the article explores the link between entrepreneurial process of small businesses and contexts where those small businesses are embedded. Context is a subset of macro environment within which has been subjected to variation in informal institutions developed over years. Case studies were conducted in two contrasting contexts employing maximum variation strategy to explore influence of contexts on entrepreneurial process. Findings of this study show that context has influence over availability of opportunities and capable individuals which may have affected the decision to exploit opportunity. Risk aversion propensity in rural setting may have negatively related to the number of opportunities exploited. Sources of resources and their forms also had been a contributory factor which determines the degree of entrepreneurship of the small business in respective contexts.

1. Introduction

Entrepreneurship researchers attempt to understand 'why' and 'how' some individuals not others exploit opportunities with superior benefits and grow their small businesses successfully (Shane, 2003). Heterogeneity of individuals in perceiving opportunities may explain further 'why' certain individuals not others start and grow their small businesses successfully. However, scholars in entrepreneurial research are univocal that entrepreneurship is a phenomenon built upon interaction between opportunity and individual. Further, Shane (2003) contends that individual-opportunity interaction could be explained by the entrepreneurial process of emergence of small businesses. Moreover, the interaction between context and individual-opportunity nexus is rare in entrepreneurship literature (Zahra & Dess, 2001). They argue that validity of entrepreneurship research is questionable if the contexts, where these researches were conducted, were not clearly explained.

Research Problem

Generally, population density of small businesses in the urban setting is higher than that of rural (Lucas, 1978, Acs, 2006). Majority of these businesses are ordinary retail businesses which are termed as *economic core* (Thurik & Wennekers, 2004). According to economics literature pertinent to entrepreneurship, individuals who are talented choose self-employment while less talented seek wage employment (Lucas, 1978). Lucas theory postulates that expected returns are the key to choose self-employment. These expected returns may mostly depend upon economic environment of which monetary and fiscal policies are constituents. In countries where entrepreneurship theories are developed, economic environment is stable. In contrast, economic as well as cultural environment in small economies are not as stable as those developed countries. As a result, majority of entrepreneurs have to face the fluctuations in macro-environment as well as the contexts. Environment in this paper refers to macroeconomic environment and the context refers to the immediate

environment and the task environment where those small businesses are embedded.

Majority of entrepreneurship literature attempted to explain the variation in distribution of small businesses in environment contexts either from the opportunity point of view or individual point of view. Opportunities were dichotomized as innovative (Schumpeter, 1934) and less innovative (Kirzner, 1979). Individuals were assessed according to their behavior in opportunity discovery and exploitation. Entrepreneurship researchers, such as Ucbasaran et al. (2009), categorized entrepreneurs as novice, serial, portfolio or habitual according to the number of opportunities identified and exploited. Combining both perspectives, Shane (2003) developed the theory on individual-opportunity nexus. Opportunity and individual interaction has been explained through entrepreneurial process which starts with existence of opportunities and end with exploitation of opportunity or emergence of a new firm. This entrepreneurial process takes place not in a vacuum but in a context which also has been subjected to the macroeconomic variables. Then it is reasonable to argue that there could be a variation of small businesses even if they are based upon similar opportunities exploited by similar individual entrepreneurs embedded in different contexts but within the same macroeconomic environment. Then, 'why do only certain individuals exploit opportunities which give superior benefit not others' could be addressed by examining the context in which entrepreneurs make decision to exploit an opportunity. Only few studies in entrepreneurship literature provide evidence for using environment contexts as an independent variable. Miller and Shamsie (1996) used two environments to test the growth of firms in film industry. Dreyer and Gronhaug (2004) used turbulent institutional environment and uncertain competitor environment to examine flexibility of small firms to attain growth. However, both studies used macroeconomic variables but not the context of small firms for their studies.

Above discussion allows us to raise research question *does the context, where small business owners/entrepreneurs are embedded, influence the entrepreneurial process of small business firms?* To operationalize the research question research question can be re-phrased as, *what are the entrepreneurial processes/activities employed by entrepreneurs in different contexts?* Then the objective of this paper is to find entrepreneurial processes of entrepreneurs in contexts where those small businesses are embedded.

The paper organized into five sections including this introduction. Section 2 reviews the literature. Section 3 describes the methods and section 4 presents data and results. Finally, section 5 concludes the paper.

2. Literature review

Talented individuals seek self-employment to gain higher returns than the wage employment (Lucas, 1978). Whenever size distribution of small business is concerned, in general, majority of businesses are located in urban cities. Among the possible explanations for uneven distribution of small businesses between urban and rural include the availability of opportunities which yield superior benefits (Storey, 1982; Baumol, 1990) and the talented individuals (Lucas, 1978). However, opportunities are categorized according to the innovativeness (Shane, 2003), i.e., Kirzner opportunities (lesser innovative opportunities) and Schumpeterian opportunities (innovative opportunities). According to Shane (2003) entrepreneurship is the interaction between individual and opportunity which also may determine the type of entrepreneur. Similarly Ucbasaran (2003, 2004) contends that number of opportunities identified and exploited by an entrepreneur would determine the type of entrepreneurs. Moreover entrepreneurs are defined under three well-established criteria, namely, business ownership, decision making role, and ability to identify and exploit opportunities.

Shane (2000, 2003) defined entrepreneur as an individual who has identified and exploited at least one opportunity. Scholars, such as Ucbasaran et al. (2006; 2004a) categorized entrepreneurs as novice, habitual, serial, and portfolio. Novices are the ones who have exploited one opportunity. Habitual entrepreneurs have exploited more than one opportunity sequentially or several concurrently. The former is termed as serial entrepreneurs and the latter is termed as portfolio entrepreneurs. This categorization help to identify successful small businesses according to the number of opportunities identified and exploited. Also it help rank small businesses in each context. It is assumed that the number of opportunities identified and exploited would determine the conduciveness of context to business entry and business growth. Accordingly small

firms are categorized according to the interaction between individual and opportunity and their success according to views of competitors, customers, and revenue collectors.

Table 1: Categorization of small firms types according to individual and opportunity

	Opportunities		
	Innovative opportunities (Schumpeterian)		Lesser innovative opportunities (Kirznarian)
	Novice individuals	Lesser success business with slow growth rate	Poorly surviving success Below the opportunity cost of maintain the business
Entrepreneurs	Habitual/serial entrepreneur	Highly entrepreneurial business with high growth rate.	Surviving business

When the matrix illustrated in table 1 is super-imposed over the entrepreneurial process, propositions can be developed in relation to entrepreneurial process and context. Many conceptualizations of the environment are largely consistent with Aldrich & Mindlin (1978) who described environment as a source of information, and a stock of resources. Some researchers such as Dess and Beard, (1984) define environment in three dimensions, namely, munificence, complexity, and dynamism. This study considers dynamic dimensions only as given in the Table 2. The contexts chosen resemble Cell No. 1 (*Township*) and the Cell No. 4 (*village*) which is low in information and dynamism.

Table 2 : Characteristics of Context in Terms of Resource and Information

		Stock of Resources	Source of Information
		High	Low
Dynamism	High	1	2
	Low	3	4

This matrix is important to see the differences among each cell. In general, rural setting is not complex or dynamic as urban setting. But variation could exist between extremes. Kodituwaaku (1997) defines rural environment as resource constrained and redundant information (Burt, 1999) while others contend urban environment is rich in both resources and information. Resources in small business context could be confined to social, human, and physical resources (Wiklund & Shepherd, 2003). Another division of environment is hostile and benign (Covin & Slevin, 1989). They characterized hostile environment as precarious industry setting, intense competition, harsh, overwhelming business climate and the relative lack of exploitable opportunities (Covin & Slevin, 1989:75). Benign environment, on the other hand, provide a safe setting due to overall level of munificence, richness in investment and marketing opportunities.

In essence, dynamism and complexity reflect the degree of uncertainty facing an organization and munificence signals a firm's dependence on those environments for resources. Research uses two environmental constructs, i.e., dynamism and hostility. Dynamism relates to the rate of unpredictable change in a firm's environment (Duncan 1972; Child 1972). Dynamism indicates uncertainty that erodes the ability of managers to predict future events as well as their impact on the organization (Khandwalla 1977). This study adopts above dimensions into the institutional environment.

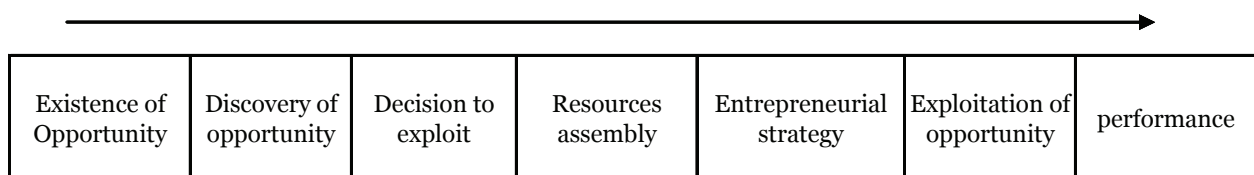


Figure 1: Entrepreneurial process Adopted from Shane (2003, p.12)

Entrepreneurial process according to Shane (2003, p.4) is given in the Figure 3. Due to time and space constraints, this study confined to entrepreneurial process only up to resource assembly. Due to absence of intense competition, precarious industry setting and the presence of social harmony built over the years, rural environment could be considered as benign. According to Kodituwakku (1997), Shanmuganathan (1984), however, rural context lacks both social and human capital. When the availability of opportunities and entrepreneurial individuals are concerned, most provocative theory on entrepreneurial activities and context was Baumol (1990) which states that “the number of enterprising individuals and valuable opportunities is constant over time and space, with only the distribution between productive and unproductive forms varying across these dimensions”. Shane and Venkataraman (2000) do not agree with this theory in its entirety. Similarly, this study argues that both enterprising individuals and opportunities cannot be constant because an individual can discover infinite number of opportunities in a given space and time and because opportunities are situations perceived by individuals. However, capable individuals could be a limiting factor when education is considered in broad sense. Education in broader sense include, prior business experience (Shane & Eckhardt, 2003), formal education, number of opportunities discovered and exploited and marketing experience (Shane, 2003). From the above discussion following proposition is suggested.

- i. Availability of opportunities which yield superior benefits in urban settings is higher than those of rural setting (context).

Even though opportunities are available, there must be an agent to exploit opportunities (Shane, 2003; Wiklund & Shepherd, 2003; Storey, 1989). When the capable individuals are lacking, opportunities could not be exploited. According to Socio-economic Survey (2003-4), majority of youth in the rural receive education in the urban and develop networks with business sector. These rural individuals either migrate to urban or seek wage employment. Then agents to make decision on exploiting opportunities are limited in rural context. According to Shane (2003), Shane and Eckhardt (2003) education is associated with enterprising individuals. Majority of researchers have used formal education as human capital which influence entrepreneurship. However, Ucbasaran et al. (2006) states that education should be considered in broader sense including, ownership experience, number of opportunities exploited, and experiencing learning. This study adopts formal education and other attributes mentioned above in a broader sense termed as human capital and suggests that,

- ii. Availability of capable individuals (enterprising individuals) is higher in the urban context than in the rural context.

Institutional environment constitutes economic, political, and socio-cultural environment where those entrepreneurs are embedded (Shane, 2003). Entrepreneurship researchers found that relationships exist between those constituents. North (1979) put forward an institution theory and argued that institutions can be formal or informal and those provide strategies to reduce risk and uncertainty. Through dense social networks, rural population built their informal organizations to averse risk and uncertainty. For example *Maranadara Samithi* (Aid for Funerals) has been a common feature in rural societies in Sri Lanka to bear the expenses of a funeral. Similar organizations are formed to get essential goods and services through traditional informal organizations and recently developed formal institutions (i.e., *Shamurdhi Samithi*; Annual Reports, Central Bank of Sri Lanka, Annual reports of Samurdhi Development Authority). As a result these institutions help minimize consequences of unexpected occurrences and eventually used for risk aversion (Knight, 1921). However, in the urban environment majority of business owners, who have migrated to town from the various parts in Sri Lanka, know each other only through business activities. Hence they are not linked through blood relationships and used to form institutions to averse risk in the business environment (Wiklund & Shepherd, 2003).

Moreover, traditional rural societies in Sri Lanka use small businesses as a supplement to their main livelihood (agriculture) and consider exploiting more opportunities as a risk for their farming activities. They avoid risks which would be a threat to main livelihood, farming. In contrast, main livelihood in urban is business and have few alternatives to main livelihood. Hence the following proposition is suggested.

- iii. Individuals in rural environments tend to be more risk averse in decision making on exploitation of subsequent opportunities than those of urban.

The basic characteristic of rural context is self-sufficiency. Small-scale village trade exists within a “dense” social network of informal constraints that facilitates local exchange. The costs of transacting in this context are low. People have an intimate understanding of each other. When trade expands beyond the village to urban, transaction costs increase with the degradation of intimacy (North, 1991). As a result more resources must be devoted to transactions. As a result, members of the rural society form informal institutions and induce changes in formal institutions through their dense social networks. However, Burt (1999) informs density of social network act negatively to access new information (redundant) hence act as inertia for entrepreneurial process. Since main livelihood of rural people is agriculture, income distribution throughout the year coincides with the rainfall pattern on which they make agricultural products. As a result, most of rural businesses takes place on credit. Credit sale impose barrier for rural small business growth and pose liquidity problems for businessmen (Shanmugarathnam, 1985). Therefore this study suggest following proposition.

- iv. Social networks in rural contexts may create inertia for emergence and subsequent growth.

Wiklund and Shepherd (2003) states that resources endowed to small business are mainly social and human capital. Social capital is defined as resources that flows from network and sources of acquiring resources to start a business may vary with the contexts. For example, small business owners get labour from their kith and kin at lower cost than their counterparts in the urban. Moreover, Wiklund (1999) and Granovetter, (1985) contends that majority of resources for small businesses are acquired through social networks. Hence following proposition is suggested.

- v. Individuals in rural context acquire higher proportion of resources from social networks (informal institutions) while their counterparts acquire higher proportion of resources from business networks.

3. Method

Entrepreneurship researches are dominated by quantitative methods. However this poses some problems (Davidson, 2005). Sampling is a major threat faced by researchers since it is difficult to find a homogenous population to get a representative sample. Due to following reasons, Davidson emphasize qualitative research design.

1. Entrepreneurship is a process. Process cannot be captured by Survey research
2. Individuals are heterogeneous and representative sample from a homogeneous population is impossible
3. Entrepreneurial behavior is not continuous. Hence it is difficult to assume that they were engaged in entrepreneurial activities throughout the whole business life. (Per Davidson, 2005, p. 70).

Longitudinal studies needs time. Qualitative approach also had been advocated for examining emerging themes. Case study method is useful to eliminate problems arising from statistical method. Hence, this study uses case study method (Yin, 2003) to compare institutional variables in rural setting and urban setting. As advocated by Eisenhardt (1989) maximum variation strategy is used to select the contexts and the small businesses embedded in it. Accordingly, this study selected two extreme contexts in the Kurunegala

District (see cells 1 and 4 in table 2) and within each context, again, selected two extremes in terms of opportunities (see table 1).

To minimize natural variables, township located in the intermediate zone was selected. Kurunegala District is the one which meets above requirement to minimize variation in climate. Its geographical location is ideal to maximize variables in accessibility. Main road to North runs through Kurunegala township and its distance to Colombo, the capital city, is 60 km whereas to Kandy, the second largest city, is 45 km. Racial harmony exists in the township where all three religious groups are running their businesses in the town. All three major plantation crops are grown in the district but coconut is the main livelihood of people. Since coconut is the least labour intensive plantation crop, individuals have greater time for other activities than other plantation crops like tea and rubber.

Case study research design

Along with maximum variation strategy, the best township in 2008, Kuruengala Municipal Council, was selected together with one of the poorest village, Galtawewa (selected by World Food Programme) in Kurunegala District to compare institutional environments. The village is located about 55 km from township bordering a jungle. The influence of urban to this village is minimum and majority of them earn their livelihood by farming. Whole village comprising 278 families was selected for the study. All business activities of the village were mapped. Similarly, with the highest income earning ward in the Kurunegala township, Ward No. 4, was selected. It has around 111 businesses but majority deals with vehicle spare parts. Then their businesses were categorized according to the matrix developed in the Figure 2.

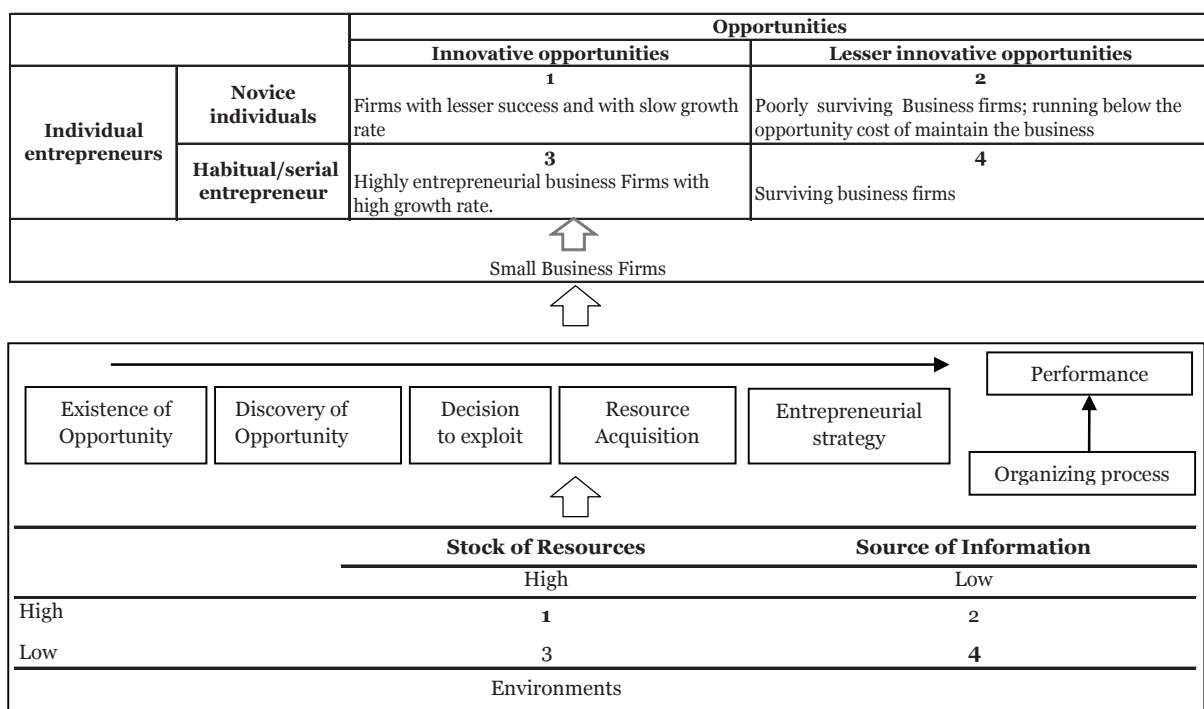


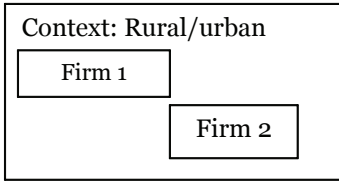
Figure 2: Conceptual Framework of the study

In-depth interviews conducted with all business owners in the village and township, were tape recorded and transcribed. These interviews were conducted on the pre-prepared topic guide on the followings,

1. First to isolate entrepreneurial process;
2. Then to examine behavior of entrepreneurs/business owner during the entrepreneurial process;
3. To explore why they are behaving/not behaving in the predicted manner ; and
4. Reasons for not behaving in the predicted manner.

5. Relationships (both social and business) with the village/business community
6. Membership of the organizations they are affiliated with

Table 3: Research Design of the study

Research question	Case study research design	Status of unit of analysis
Does the context, where small business owners/entrepreneurs embedded, influence the entrepreneurial process of small business firms'.		Multiple embedded unit of analysis

Sampling and Analytical Framework for Case Studies

Sampling is theoretical (Yin, 2003) and selected individuals to represent each cell on the basis of the evidence collected from business owners, their competitors, and government officials who are collecting revenue. As no revenue collectors in rural setting, the Grama Seva-Niladhari who deals with administrative matters was consulted and collected information about all business owners. Table 3 gives the framework employed to analyze the case studies according to the maximum variation strategy advocated by Eisehhardt (1989).

Table 4 : Case Study Analysis Framework (Details of eight case studies are given in the Appendix B)

Demonstrating cases to test the theory (continued from conceptual framework)	Urban context	Rural context Case studies
Successful small businesses with high growth rate.	Case study 1	Case study 5
Successful businesses with lower growth rate.	Case study 2	Case study 6
Surviving businesses	Case study 3	Case study 7
Existing businesses below the opportunity cost	Case study 4	Case study 8
The above case studies are given in the appendix A.		

4. Results and Findings

Growing businesses in the Ward 4 is only about 15 percent while rest of the businesses are either surviving or existing. Out of this 15 percent (16 growing small businesses), portfolio entrepreneurs represent eight percent. Surviving businesses represent 74 percent and 11 percent running below the opportunity cost of labour (existing businesses). Similarly, village entrepreneurial activities according to descriptive data analysis reveals that 96.5 percent of rural businesses either surviving or existing while only 3.5 percent rural businesses are growing. From this 96.5 percent of surviving or existing businesses, about 45.5 businesses are running below the opportunity cost of the owner-manager's labour while 51 percent of all entrepreneurial activities of the village are surviving. When the types of entrepreneurs are concerned number of habitual entrepreneurs (entrepreneurs who exploited more than one opportunity) in rural is only about one percent. Small businesses running under opportunity cost of owner manager's labor in the rural setting is 45.5 percent while it is around 11 percent in the urban settings.

Case study analysis was carried out, within case analysis and cross case analysis according to the framework given in table 4. Accordingly we found that most prolific entrepreneurs in Urban have exploited more than one opportunity and the average is around five and currently managing at least three independent businesses (portfolio entrepreneurs). In contrast, no serials or portfolio entrepreneurs were found in the rural setting. Forty percent of serial entrepreneurs in the urban settings have become portfolio entrepreneurs according to this analysis. Even though no portfolio or serial entrepreneurs are found in the rural setting, 85 percent of business oriented farm families are carrying out at least two farming activities (Paddy and other

crops). All small businesses in the rural setting have exploited non-innovative opportunities and have rooted those businesses in agriculture.

Proposition 1 which states that availability of opportunities which yield superior benefits in urban settings is higher than those of rural setting (context) is supported by both descriptive and case analysis. The returns from the opportunities exploited in the rural setting are comparably low and 45.5 percent are below the opportunity cost of labour while it was 11 percent in the urban setting.

Proposition 2 which states availability of capable individuals (enterprising individuals) is higher in the urban context than in the rural context is also supported by descriptive data and case study analysis. No rural entrepreneur was able to identify and exploit more than one opportunity and the opportunity they discovered exploited were non-innovative. No any opportunity related to technology was discovered and exploited in the rural settings. However there may be implication in proposition 1 and 2 since neither can exist without the other. Also the subjective component of opportunity is not separated in this study.

Proposition 3 states that individuals in rural environments tend to be more risk averse in decision making on exploitation of subsequent opportunities than those of urban. Even though the research design of this study is not comprehensively developed to ascertain risk, opportunities they discovered would suggest the risk tolerance propensity. This has been, according to case study analysis, is based upon the nature of context which evolved to reduce risk and uncertainty of life. This attitude may have seeped into their business life and tend to live in a contented life.

Proposition 4 which states social networks in rural contexts may create inertia for emergence and subsequent growth. From the within case analysis and cross case analysis this study explore that density of social network is a factor which prevent rural entrepreneurs from discovering innovative opportunities. High density of networks protect entrepreneurs from challenges in the dynamics of environment. Moreover, social networks in rural setting are poor in content both resources and information. This study explored that capital resources are scare due to unavailability of business networks to access capital resources and more importantly information in the networks are redundant. The major factor, according to analysis, is education in broader sense. Even though they have achieved good standards in formal education, experience in business and marketing have not supplemented formal education to make it broader. As a result, high density of social network had been created inertia for entrepreneurial process, particularly in discovering opportunities and resource assembly stages.

Proposition 5 which suggest that individuals in rural context acquire higher proportion of resources from social networks (informal institutions) while their counterparts acquire higher proportion of resources from business networks also supported by within case analysis. Urban entrepreneurs developed business network around financial institutions and top-ranked businessmen are high-ranked in the business network hierarchy. As a result urban entrepreneurs extract higher resources and new information from business networks. In contrast, in rural settings have no business network other than the dense social networks which resource-constrained. Although these social networks are linked to business networks, these networks are, very often, not reciprocate but exploitative. As a result, entrepreneurial processes in each contexts are affected in terms of quality (information) and quantity of resources.

5. Conclusion

While largely qualitative in nature the findings from this study provide a useful insight into the nature of entrepreneurship distributed in rural and urban environments in Sri Lanka. This study has its limitations; it was conducted in a zone climatically intermediate, in a township which won awards for best township, and in a poverty stricken village located under harsh environment. Theoretically, this study has used only dynamism of the environment but not others. Despite the empirical studies undertaken under deductive approach in previous studies have demonstrated the potential validity this study (Ucbasaran et al. 2006; Storey, 1994; Miller & Shamsie, 1996), further studies have to be carried out to evaluate usefulness of case study research method to examine a phenomenon in real world with uncontrollable variables.

Entrepreneurial process is a continuous process, which cannot see before it happened and evolve over time. Such phenomenon has to be examine retrospectively. The context does not influence each stage discretely but may influence the whole process in varying degree. When the opportunity has a subjective component which cannot be separated from the agent who discover it and the agent is also a part of the context that influences context itself. Consequently, studies on entrepreneurial process have to be undertaken in integrated manner by incorporating both quantitative and qualitative approaches.

In general, findings of this study are useful for policy makers to leverage rural entrepreneurship by formulating policies to reawaken the rural entrepreneurs which may contribute to economic growth of the country.

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